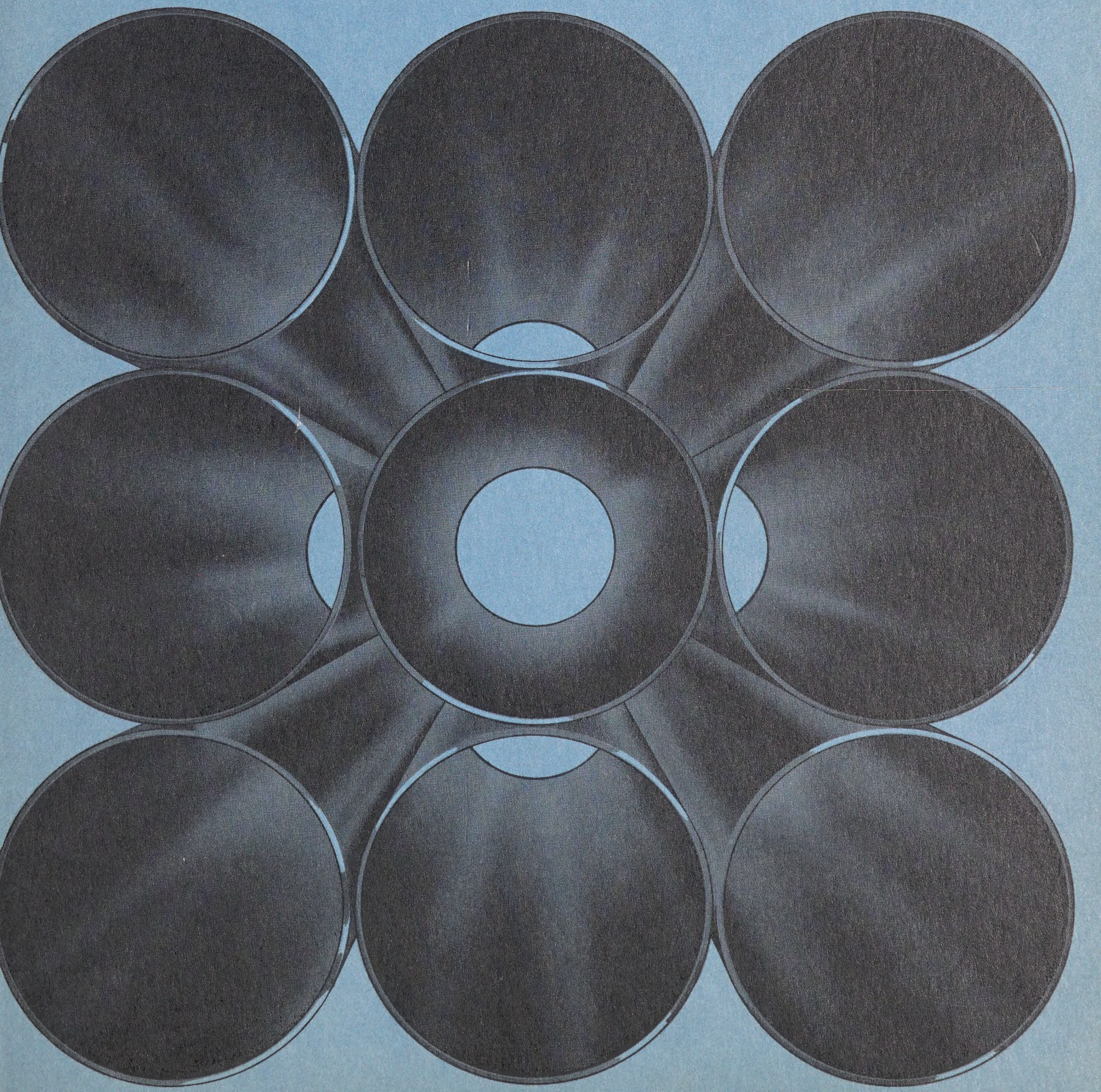
# INTERPROVINCIAL PIPE LINE COMPANY

# ANNUAL REPORT 1966



## *1966 Highlights*

| FINANCIAL | 1966 | 1965 | Increase |
|---|---|---|---|
| Income | $ 89,006,000 | $ 80,292,000 | 10.9% |
| Expenses, not including taxes | $ 36,307,000 | $ 30,700,000 | 18.3% |
| Income and other taxes | $ 30,176,000 | $ 29,255,000 | 3.1% |
| Earnings | $ 22,523,000 | $ 20,337,000 | |
| per share | $4.43 | $4.00 | 10.8% |
| Dividends | $ 18,314,000 | $ 17,551,000 | |
| per share | $3.60 | $3.45 | 4.3% |
| Capital expenditures | $ 4,513,000 | $ 11,172,000 | |
| Cash flow from operations—per share | $6.94 | $6.42 | |
| OPERATING | | | |
| Deliveries (barrels per day) | 604,944 | 558,045 | 8.4% |
| Barrel miles (millions) | 267,354 | 241,264 | 10.8% |

## *The Pipe Line Transportation System*

*(as at December 31, 1966)*

| | Canada | United States | Total |
|---|---|---|---|
| Miles of main line pipe—size 12″ | 66 | 26 | 92 |
| 16″ | 428 | — | 428 |
| 18″ | 39 | 324 | 363 |
| 20″ | 594 | 8 | 602 |
| 24″ | 772 | — | 772 |
| 26″ | 2 | 324 | 326 |
| 30″ | 7 | 633 | 640 |
| 34″ | 143 | 187 | 330 |
| | 2,051 | 1,502 | 3,553 |
| Number of pumping stations | 20 | 19 | 39 |
| Installed horsepower—diesel | 78,840 | 51,440 | 130,280 |
| —electric | 66,750 | 74,750 | 141,500 |
| | 145,590 | 126,190 | 271,780 |
| Line fill in barrels (provided by shippers) | 4,859,000 | 5,548,000 | 10,407,000 |
| Tankage capacity in barrels | 4,940,000 | 3,587,000 | 8,527,000 |
| Refineries served | 18 | 13 | 31 |
| Separate streams of crude oil transported | | | 21 |

# INTERPROVINCIAL PIPE LINE COMPANY

## 1966

*Incorporated by*

*Special Act of the Parliament of Canada, April 30, 1949*

| | | |
|---|---|---|
| *Directors* | T. S. Johnston | *President, Interprovincial Pipe Line Company* |
| | D. R. Walker | *Retired, former Vice-President and Director, Wood, Gundy & Company Limited* |
| | T. F. Moore | *Vice-President and Director, Imperial Oil Limited* |
| | W. Harold Rea | *Industrialist* |
| | R. H. Reid | *President and Managing Director, London Life Insurance Company* |
| | J. W. Hamilton | *Director, Imperial Oil Limited* |
| | R. D. Parker | *Consultant* |
| | J. Willis Morgan | *Vice-President, The British American Oil Company Limited* |
| | J. A. Cogan | *Vice-President and Director, Imperial Oil Limited* |
| | D. G. Waldon | *Vice-President, Interprovincial Pipe Line Company* |
| | Paul L. Kartzke | *President and Director, Shell Canada Limited* |
| *Officers* | *President* | T. S. Johnston |
| | *Vice-President* | D. G. Waldon |
| | *Vice-President* | D. R. Walker |
| | *Vice-President* | J. W. Hamilton |
| | *Secretary-Treasurer* | J. Blight |
| | *General Counsel* | R. B. Burgess |
| *Head Office* | *10830 Jasper Avenue* | EDMONTON, ALBERTA |
| *Executive Office* | *7 King Street East* | TORONTO, ONTARIO |
| *Stock Transfer Agents* | *The Royal Trust Company* | TORONTO, MONTREAL, HALIFAX, WINNIPEG, EDMONTON, VANCOUVER |
| | *Chemical Bank New York Trust Company* | NEW YORK |
| *Stock Registrars* | *Montreal Trust Company* | TORONTO, MONTREAL, HALIFAX, WINNIPEG, EDMONTON, VANCOUVER |
| | *Bank of Montreal Trust Company* | NEW YORK |

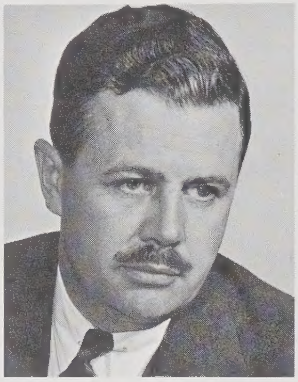
Annual General Meeting—2:30 p.m., April 12, 1967, Confederation Room, Royal York Hotel,
100 Front St. West,
Toronto, Ontario

# Board of Directors

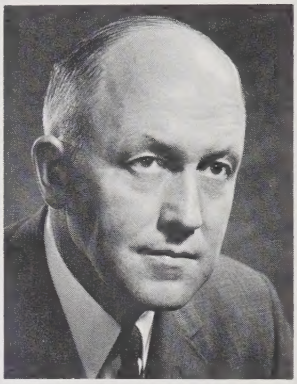
T. S. JOHNSTON

D. G. WALDON

D. R. WALKER



J. W. HAMILTON



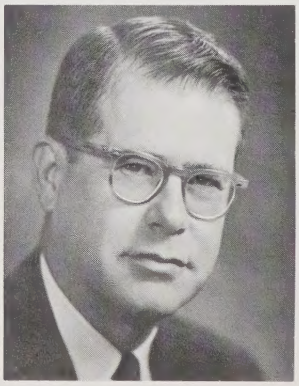
W. HAROLD REA

T. F. MOORE

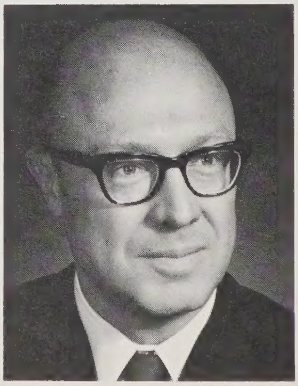
R. H. REID

J. WILLIS MORGAN

R. D. PARKER



J. A. COGAN



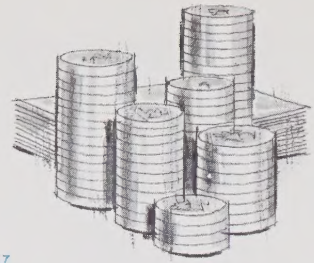
PAUL L. KARTZKE

## Directors' Report to Shareholders

1966 was a year which resulted in drastic upward revisions to delivery schedules far beyond expectations. The quantity of crude petroleum transported was the greatest in the Company's history and consequently was a period of further growth and development. Total deliveries of crude oil in 1966 amounted to 220.8 million barrels—an increase of 17.1 million barrels over 1965. Earnings were likewise higher in 1966, equivalent to $4.43 per share, compared to $4.00 per share in the previous year.

The expanded demand for crude oil, developing as it did in the latter part of 1966, was a situation which prevailed throughout North America with refineries and transportation facilities operating at capacity. In the case of Interprovincial, spare line capacity, which had been deemed adequate for the 1966 requirement, was completely eliminated. Pumping facilities were taxed to their limit and, as a result, operating expenses increased materially over the previous year—fuel, power and maintenance costs were particularly affected.

Interprovincial's policy—stated on many occasions—is to provide transportation for crude petroleum in the most efficient manner at published tariffs consistent with economic conditions. To this end, the Company is extremely conscious of changes which will provide more efficient and economical operations. Among the improvements now in advanced stages of completion are the conversion of three diesel pumping stations in Manitoba to remotely controlled electric operation. Hours, almost without limit, have been spent on computer studies which are aimed at having a complete remotely controlled operation during 1967. At that time Interprovincial will become one of the most highly automated crude oil pipe line systems in the world. To keep pace with the growing economy and expanding market, a large capital expenditure program of over $70 million will be undertaken in 1967. This program will provide additional capacity to the present system to meet the expected refinery demand for crude in 1968. Substantial pipe line loops and additional horsepower will be added during the year.



# Financial Review

## Earnings and Dividends

Consolidated earnings for 1966 were $22.5 million, equivalent to $4.43 per share. This was 10.8% more than the $4.00 per share earned in 1965.

During the year $18.3 million, 81.3% of the current year's earnings, was paid to the shareholders as dividends compared with $17.6 million or 86.3% of 1965 earnings. Dividend payments totalled $3.60 per share compared with $3.45 per share in 1965. Regular dividends were paid at the rate of 85 cents per share in the first two quarters and increased to 90 cents in the third and fourth quarters, together with an extra dividend of 10 cents per share in the last quarter.

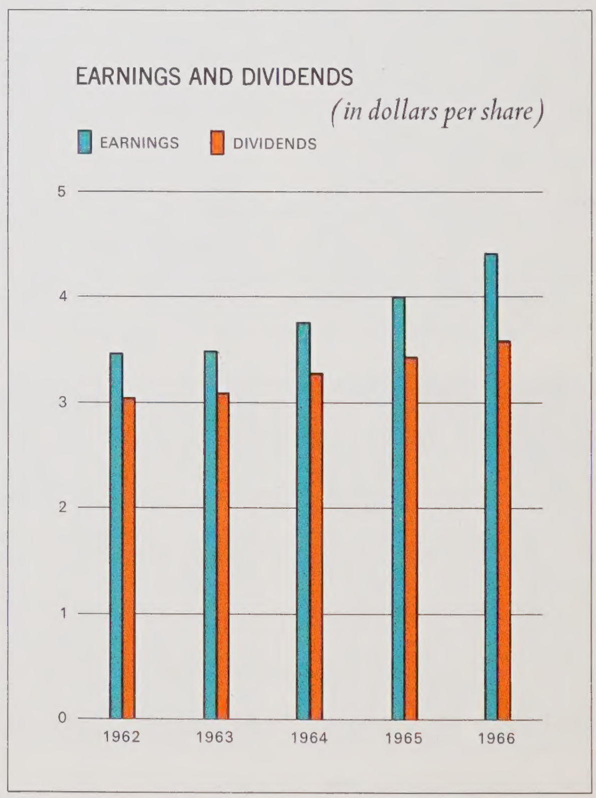
## Income and Expenses

Transportation revenue of $87.8 million was 10.1% more than in 1965. Income from short term investments was substantially higher than in 1965 due to the investment of proceeds from the sale of $35 million debentures and generally higher interest rates prevailing throughout the year.



Operating and administrative expenses of $19.2 million increased by $3.4 million. While higher salary and benefit payments contributed to the increase, the major part of the additional expense was for fuel and electric power required to transport the additional volumes of crude oil. Fuel and power costs for each section of the system will continue to increase at a faster rate than the volumes of crude oil transported until such time as each section is looped out.

As more fully explained in Note 6 of the Financial Statements entitled "Amortization of Facilities to be Retired", the write-off of $1,586,000 represents



approximately 50% of the value of pipe line facilities which will be retired during 1967 at three diesel pumping stations in Manitoba.

## Taxes

To meet the ever increasing needs of municipal, provincial, state and federal governments, the Company continues to carry an extremely heavy tax burden. In 1966 taxes amounted to $30.2 million which is 34% more than earnings. Under today's conditions governments have a major interest in business activities.

Note 3 of the Financial Statements entitled "Provision for Income Taxes", details the present status of the Company's long-standing dispute with the Canadian Department of National Revenue. Involved is the Company's claim that the 15% tax withheld at source on bond interest received from its United States subsidiary is a foreign tax credit and therefore is an allowable deduction from Canadian income taxes. As stated in the 1965 Annual Report, the tax assessments were appealed to the Exchequer Court of Canada. Some progress has been made in this dispute and it is confidently expected that the case will be fixed for a hearing before the Exchequer Court within the next few months.

## New Financing

On November 1, 1966, $35 million 6% Sinking Fund Debentures, Series A in interim form, were sold to the public at par through the Company's underwriters. When exchanged, on or after March 1, 1967, for definitive certificates, the debentures will have attached Share Purchase Warrants, in bearer form, which will entitle the holder to purchase capital stock of the Company in the proportion of five shares per $1,000 of principal amount of debenture, at $85 per share, at any time on or before November 1, 1976. The proceeds from this issue will be used to finance a portion of the Company's 1967 construction program.

Additional financing will be required in 1967. It is anticipated that the recent improvement in the availability of funds in Canada and United States will enable the Company to obtain its requirements on more reasonable terms.

### Working Capital

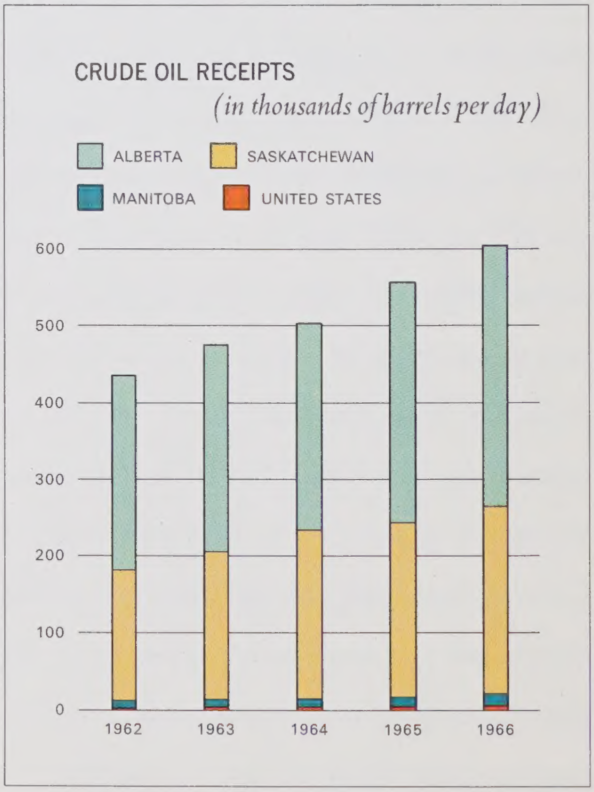
Funds generated from operations during 1966 amounted to $35.3 million, equivalent to $6.94 per share compared with $32.6 million or $6.42 per share in 1965. This was more than sufficient to provide for dividends, sinking fund requirements and capital expenditures.

### Subdivision of Capital Stock

The proposed Private Members Bill to subdivide the Company's capital stock on a five-for-one basis again failed to receive approval of Parliament by the end of the year. As stated in last year's Annual Report, in January, 1966 a new Bill was introduced at the opening of the current Session of Parliament. The necessary approval of the Senate was obtained and the Bill is now before the House of Commons. It was deemed to have received First Reading on February 10 and was considered for Second Reading twice in February, once in March and again in June. On each occasion it was "talked out" by members of the opposition parties during Private Members Hour. If the Bill is not passed by Parliament before the current session ends, the authorizing by-law will have lost its validity and a new by-law will have to be approved by the shareholders before a new Bill can be introduced in Parliament.

## Operations Review

Receipts and deliveries of crude petroleum in 1966 again set new records. Receipts averaged 607,300 barrels per day compared with 561,700 in 1965 and deliveries of 604,900 barrels per day were 46,900 higher than 1965. Deliveries in



December established a new high of 660,000 barrels per day. The difference between the volume of oil received and delivered results from using crude oil for fuel in diesel engines, inventory adjustments and oil losses inherent in pipe line transporation.

### Crude Oil Receipts
*(in thousands of barrels per day)*

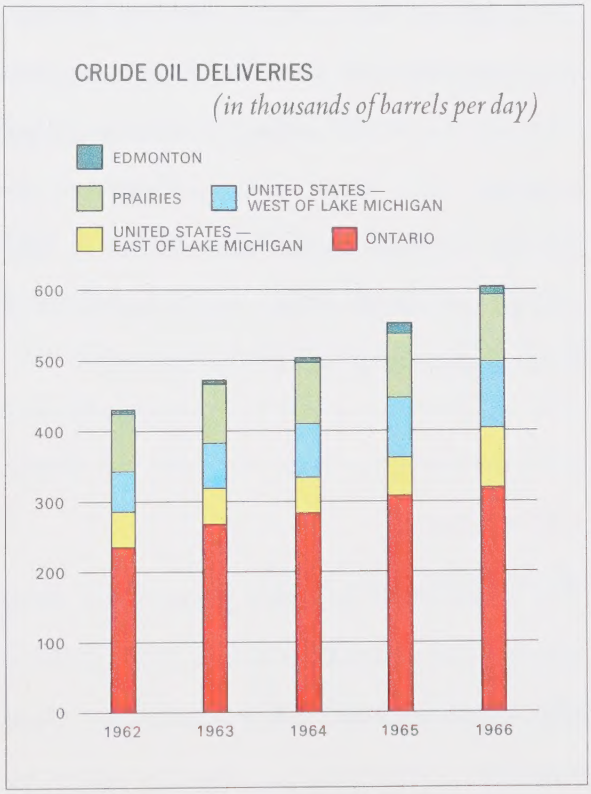
| | 1966 | 1965 | Increase |
|---|---|---|---|
| Alberta . . . . | 340.3 | 313.9 | 8.4% |
| Saskatchewan . . | 245.4 | 228.8 | 7.3% |
| Manitoba . . . | 14.8 | 14.1 | 5.0% |
| United States . . | 6.8 | 4.9 | 39.4% |
| | 607.3 | 561.7 | 8.1% |

### Crude Oil Deliveries
*(in thousands of barrels per day)*

| | 1966 | 1965 | Increase (Decrease) |
|---|---|---|---|
| Edmonton for West Coast . . . . | 8.5 | 14.6 | (41.8)% |
| Prairies . . . . | 98.3 | 91.5 | 7.4% |
| United States | | | |
| West of Lake Michigan . . . | 94.2 | 86.9 | 8.5% |
| East of Lake Michigan . . . | 83.8 | 56.8 | 47.4% |
| Ontario . . . . | 320.1 | 308.2 | 3.9% |
| | 604.9 | 558.0 | 8.4% |

Barrel miles were 10.8% higher than in 1965 whereas deliveries increased by only 8.4%. This was a result of increased volumes of oil from Alberta together with larger deliveries to refineries at the eastern end of the pipe line system.

Exports to the United States, which increased substantially during the latter half of the year, accounted for 34,300 barrels per day or 73.1% of the total increase in deliveries. The 320,100 barrels per day transported for the seven refineries in Ontario, which in aggregate are Interprovincial's largest customers, accounted for 52.9% of the total 1966 deliveries.



## Construction

### 1966 Review

A comparatively small construction program of $2.2 million was carried out as scheduled. During the year, however, the program was augmented to provide for the unexpected increase in demand. A supplementary construction program was initiated consisting of two temporary pumping units between Edmonton and Regina and additional horsepower at Superior, Wisconsin, West Branch, Michigan and Westover, Ontario.

The pumping station at Manistique, Michigan was completed and considerable progress was made on the electrification and remote control program. As a result of the additions to the planned program, capital expenditures in 1966 totalled $4.5 million leaving a carryover for work to be completed in 1967 of $5.1 million.

### 1967 Forecast

The construction program planned for 1967, together with about $5 million carried over from 1966, is now estimated to cost $76 million. Upon completion of the program, capacity will be increased over 100,000 barrels per day between Edmonton and Sarnia and to a lesser extent east of Sarnia. It is expected that these expenditures will establish a reasonable level of spare capacity, as well as provide for presently anticipated demands in 1968.

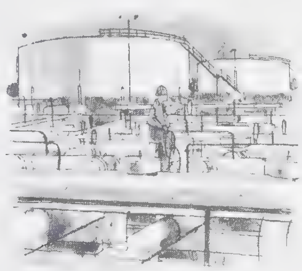
In the section of the pipe line system between Edmonton and Superior 413 miles of 34″ pipe will be installed. This, together with 330 miles already in operation, will complete 68% of the third line. Between Sarnia and Toronto 57 miles of 20″ line will be constructed as the first step in looping this section of the system. To fully utilize the main line additions, a total of 56 pumping units will be added at various locations having a total horsepower of 132,395.

The following table summarizes the new construction by sections of the pipe line system:

| | Pumping Equipment | | Looping | |
|---|---|---|---|---|
| | Units | Horse-power | Size | Miles |
| Edmonton-Regina . | 20 | 46,000 | 34″ | 176 |
| Regina-Gretna . . | 4 | 10,000 | 34″ | 136 |
| Gretna-Superior . | 6 | 12,240 | 34″ | 101 |
| Superior-Sarnia . | 20 | 51,655 | | — |
| Sarnia-Toronto . | 3 | 7,500 | 20″ | 57 |
| Westover-Buffalo . | 3 | 5,000 | | — |
| | 56 | 132,395 | | 470 |

The capacity of the various sections of the pipe line system, upon completion of the 1967 construction program, will be:

| Line Section | In barrels per day |
|---|---|
| Edmonton-Regina | 516,000 |
| Regina-Cromer | 532,000 |
| Cromer-Gretna | 709,000 |
| Gretna-Superior | 664,000 |
| Superior-Sarnia | 563,000 |
| Sarnia-Port Credit | 280,000 |
| Westover-Buffalo | 76,000 |



## General

The Company's employees in Canada were granted wage increases which approximated 8% early in 1966. No changes were made to wage rates for employees in the United States during the year; however, in February, 1967 an increase of approximately 4% was granted. This followed patterns which developed in the Canadian and United States oil industry.

The Company was saddened by the death of Mr. John F. Fairlie who joined the organization on March 1, 1964 as Executive Vice-President. During his relatively short service, he gave unsparingly of his time and contributed materially to Company policy and operating matters.

In November Mr. D. G. Waldon, formerly General Manager in Edmonton, was appointed a Vice-President in the Executive Office in Toronto. At the same time Mr. R. K. Heule was appointed General Manager.

Changes occurred in the Board of Directors during the year. The untimely death of Mr. D. H. Cooper caused a vacancy which was subsequently filled by Mr. J. A. Cogan, a Vice-President and Director of Imperial Oil Limited. In December the Board of Directors was increased from nine to eleven members. To fill these positions Mr. Paul L. Kartzke, President and Director of Shell Canada Limited, and Mr. D. G. Waldon, Vice-President of the Company, were appointed to the Board.

The continued progress and success of the Company is largely dependent upon the conscientious efforts of its employees. The Board and Management gratefully acknowledge their sincere and effective contributions during 1966.

*On behalf of the Board of Directors*

*President*

# INTERPROVINCIAL PIPE LINE COMPANY

*and subsidiary companies*

## Consolidated Statement of Source and Application of Funds

*(expressed in Canadian currency)*

| | For the years ended December 31 1966 | 1965 |
|---|---|---|
| *Funds were provided from the following sources:* | | |
| Earnings for the year | $ 22,522,652 | $ 20,336,576 |
| Add—Non-cash charges and (credits) to earnings: | | |
| Depreciation and amortization (Note 6) | 12,346,291 | 10,431,102 |
| Deferred income taxes (Note 4) | 417,716 | 1,642,127 |
| Deferred investment tax credit, net (Note 5) | (124,037) | 121,354 |
| Other | 123,601 | 116,831 |
| Funds provided from operations | 35,286,223 | 32,647,990 |
| Long term debt issued— | | |
| $5\frac{1}{2}\%$ First Mortgage and Collateral Trust Bonds, Series E | — | 12,000,000 |
| 6% Sinking Fund Debentures, Series A | 35,000,000 | — |
| | 70,286,223 | 44,647,990 |
| *Funds were expended for the following:* | | |
| Dividends | 18,314,215 | 17,551,123 |
| Long term debt retired or included in current liabilities | 9,575,909 | 9,328,598 |
| Additions to pipe line transportation system | 4,513,187 | 11,172,426 |
| Government of Canada special refundable tax | 651,343 | — |
| Cost of issuing long term debt | 619,656 | 117,818 |
| Other transactions, net | 96,100 | (144,556) |
| | 33,770,410 | 38,025,409 |
| *Increase in working capital* | 36,515,813 | 6,622,581 |
| *Working capital (deficit) at beginning of year* | (11,949,110) | (18,571,691) |
| *Working capital (deficit) at end of year* | $ 24,566,703 | $ (11,949,110) |

*The accompanying notes are part of the financial statements.*

## Capital Stock *(as at December 31)*

| | 1966 Shareholders | % | Shares | % | 1965 Shareholders | % | Shares | % |
|---|---|---|---|---|---|---|---|---|
| Canada | 14,846 | 91 | 4,522,074 | 89 | 13,999 | 90 | 4,490,035 | 88 |
| United States | 1,259 | 8 | 510,004 | 10 | 1,338 | 9 | 540,758 | 11 |
| Other Countries | 185 | 1 | 55,204 | 1 | 184 | 1 | 56,489 | 1 |
| | 16,290 | | 5,087,282 | | 15,521 | | 5,087,282 | |

## Consolidated Statement of Earnings

*(expressed in Canadian currency)*

| | For the years ended December 31 1966 | 1965 |
|---|---|---|
| *Income:* | | |
| Transportation revenue | $ 87,787,376 | $ 79,718,341 |
| Profit on purchase of company bonds for sinking fund | 474,137 | 322,321 |
| Income from short term investments | 654,245 | 180,556 |
| Sundry income | 90,351 | 71,022 |
| | 89,006,109 | 80,292,240 |
| *Expenses:* | | |
| Operating and administrative expenses | 19,216,932 | 15,833,125 |
| Taxes, other than income taxes | 4,291,775 | 4,097,944 |
| Provision for depreciation | 10,760,291 | 10,431,102 |
| Interest on long term debt | 4,274,187 | 4,006,192 |
| Loss on foreign exchange (Note 1) | 470,272 | 430,301 |
| Amortization of facilities to be retired (Note 6) | 1,586,000 | — |
| | 40,599,457 | 34,798,664 |
| *Earnings before income taxes* | 48,406,652 | 45,493,576 |
| *Provision for income taxes:* | | |
| Current (Note 3) | 25,590,321 | 23,393,519 |
| Deferred (Note 4) | 417,716 | 1,642,127 |
| Deferred investment tax credit, net (Note 5) | (124,037) | 121,354 |
| | 25,884,000 | 25,157,000 |
| *Earnings for the year* | $ 22,522,652 | $ 20,336,576 |
| *Earnings per share* | $4.43 | [illegible] |

## Consolidated Statement of Retained Earnings

*(expressed in Canadian currency)*

| | For the years ended December 31 1966 | 1965 |
|---|---|---|
| *Balance at beginning of year* | $ 45,050,738 | $ 42,265,285 |
| Earnings for the year | 22,522,652 | 20,336,576 |
| | 67,573,390 | 62,601,861 |
| Dividends | 18,314,215 | 17,551,123 |
| *Balance at end of year* | $ 49,259,175 | $ 45,050,738 |

*The accompanying notes are part of the financial statements.*

# Consolidated Balance Sheet *(expressed in Canadian currency)*

## Assets

| | As at December 31 1966 | 1965 |
|---|---|---|
| *Current Assets:* | | |
| Cash | $ 1,184,861 | $ 848,412 |
| Term deposits with Canadian chartered banks | 26,518,788 | 590,185 |
| Short term investments, at cost which is equivalent to market | 14,163,487 | 521,772 |
| Transportation charges receivable | 6,913,087 | 5,468,589 |
| Other accounts receivable | 204,562 | 294,889 |
| Deposit for bond interest due January 1 | 491,735 | 571,347 |
| Inventory of materials and supplies, at cost | 961,240 | 963,160 |
| Prepaid expenses | 275,569 | 241,193 |
| | 50,713,329 | 9,499,547 |
| *Other Assets and Deferred Charges:* | | |
| Government of Canada special refundable tax | 651,343 | |
| Unamortized expense on long term debt | 829,422 | 238,416 |
| Other | 448,968 | 440,618 |
| | 1,929,733 | 679,034 |
| *Pipe Line Transportation System,* at cost (Note 10) | 334,507,083 | 330,675,603 |
| *Less*—Accumulated depreciation and amortization (Note 6) | 117,653,131 | 105,910,686 |
| | 216,853,952 | 224,764,917 |
| | $269,497,014 | $234,943,498 |

## Auditors' Report

To the Shareholders of Interprovincial Pipe Line Company:

We have examined the consolidated balance sheet of Interprovincial Pipe Line Company and subsidiary companies as at December 31, 1966 and the consolidated statement of earnings, the consolidated statement of retained earnings and the consolidated statement of source and application of funds for the year then ended. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

# INTERPROVINCIAL PIPE LINE COMPANY

*and subsidiary companies*

## Liabilities

| | As at December 31 1966 | 1965 |
|---|---|---|
| *Current Liabilities:* | | |
| Accounts payable | $ 2,499,989 | $ 1,589,300 |
| Interest on long term debt | 1,543,862 | 1,279,648 |
| Income and other taxes | 15,037,846 | 13,912,759 |
| Long term debt due within one year (Note 2) | 7,064,929 | 4,666,950 |
| | 26,146,626 | 21,448,657 |
| *Long Term Debt* (Note 2) | 119,087,028 | 93,662,937 |
| *Provision for Employee Retirement Benefits* | 157,210 | 227,871 |
| *Deferred Income Taxes* (Note 4) | 27,836,843 | 27,419,127 |
| *Deferred Investment Tax Credit* (Note 5) | 1,538,183 | 1,662,219 |
| *Shareholders' Equity:* | | |
| Capital stock (Note 7)— | | |
| Authorized—$200,000,000 divided into 40,000,000 shares, par value $5 each | | |
| Issued—5,087,282 shares | 25,436,410 | 25,436,410 |
| Contributed surplus—premium on shares | 20,035,539 | 20,035,539 |
| Retained earnings | 49,259,175 | 45,050,738 |
| | 94,731,124 | 90,522,687 |
| | $269,497,014 | $234,943,498 |

*Approved on Behalf of the Board:*

T. S. Johnston, *Director* R. D. Parker, *Director*

*The accompanying notes are part of the financial statements.*

In our opinion these financial statements present fairly the financial position of the Companies as at December 31, 1966 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
February 3, 1967

Price Waterhouse & Co
*Chartered Accountants*

# INTERPROVINCIAL PIPE LINE COMPANY

*and subsidiary companies*

## Notes to Financial Statements

**1. PRINCIPLES OF CONSOLIDATION:**

The consolidated financial statements include the accounts of Interprovincial Pipe Line Company and its wholly owned subsidiaries. These are Interprovincial Pipe Line Patrol Company Limited in Canada and Lakehead Pipe Line Company, Inc. and its subsidiary, Pipe Line Service Company, Inc. in the United States.

United States dollar amounts have been expressed in Canadian dollars on the following bases:

Current assets and liabilities—at the rate of exchange December 31;

Other assets and liabilities—at historical rates of exchange except for accumulated depreciation which is translated on the basis of equivalent Canadian dollar cost of the related fixed assets;

Income and expenses—at monthly rates of exchange except provision for depreciation which is translated on the same basis as the related fixed assets.

Net losses of $470,272 arising from the foregoing methods are shown on the Consolidated Statement of Earnings as Loss on foreign exchange.

**2. LONG TERM DEBT:**

| | Originally issued | (in thousands of dollars) Outstanding December 31 — Expressed in Canadian currency 1966 | 1965 |
|---|---|---|---|
| Interprovincial Pipe Line Company— | | | |
| First Mortgage and Collateral Trust Bonds— | | | |
| Series A—3½% due January 1, 1970 | $37,000 Can. | $ 13,876 | $ 16,188 |
| B—3½% due January 1, 1970 | 35,000 U.S. | 14,502 | 16,920 |
| C—4% due April 1, 1973 | 60,000 U.S. | 32,925 | 37,700 |
| D—3⅝% due April 1, 1974 | 30,000 U.S. | 17,978 | 20,184 |
| E—5½% due April 1, 1985 | 12,000 Can. | 12,000 | 12,000 |
| | | 91,281 | 102,992 |
| Sinking Fund Debentures— | | | |
| Series A—6% due November 1, 1986 | $35,000 Can. | 35,000 | — |
| | | 126,281 | 102,992 |
| Less—Long term debt due within one year, including bonds purchased and held for sinking fund | | 7,194 | 9,329 |
| | | $119,087 | $ 93,663 |

Payments required on Long Term Debt for the years 1968 to 1971 expressed in Canadian currency are $10,194,000 in 1968; $24,689,000 in 1969; $7,271,000 in 1970 and $7,341,000 in 1971.

**3. PROVISION FOR INCOME TAXES:**

Bond interest paid to the Company by the United States subsidiary is subject to a 15% withholding tax which the Company claims as a foreign tax credit for Canadian income tax purposes. The Canadian income tax authorities have issued assessments for the years 1960 through 1965 which disallowed the greater part of the foreign tax credit claimed in respect of such withholding tax.

Counsel has advised that the assessments are ill founded in law and the Company has filed Notices of Objection thereto. The assessments in respect of the years 1960 and 1961 have been appealed to the Exchequer Court of Canada and hearing is awaited.

Pending determination of the issue the Company has made full provision for the taxes involved and, in order to avoid possible interest penalties, has paid such taxes under protest. The total disputed taxes provided to date amount to $1,872,000 of which $212,000 was provided in 1966.

**4. DEFERRED INCOME TAXES:**

The Companies' policy is to provide for depreciation of fixed assets on the straight line method at annual rates which will amortize the cost of depreciable properties over their estimated service lives. Under Canadian and United States income tax regulations more depreciation may be deducted for tax purposes than the amounts recorded in the accounts for Provision for depreciation and Amortization of facilities to be retired (Note 6). The Companies are taking advantage of the maximum deductions permitted for tax purposes which results in a deferment of taxes to future years when amounts deductible will be less than the depreciation recorded in the accounts.

The net amount of $417,716 deferred for 1966 is shown on the Consolidated Statement of Earnings under Provision for income taxes. The cumulative total of $27,836,843 deferred for 1966 and prior years is carried on the Consolidated Balance Sheet under the heading Deferred Income Taxes.

**5. DEFERRED INVESTMENT TAX CREDIT:**

The United States subsidiary companies were allowed a credit against income taxes payable of a specified percentage of the cost of most depreciable assets acquired and placed into service subsequent to December 31, 1961. However, during 1966 the United States Government enacted legislation suspending such credit from October 10, 1966 to December 31, 1967.

The investment tax credit has been deferred and is being taken into earnings over the lives of the related assets. The credit applicable to assets which qualified in 1966 is not significant. The credit to earnings of $124,037 is shown on the Consolidated Statement of Earnings under Provision for income taxes and the unamortized portion of $1,538,183 is shown on the Consolidated Balance Sheet under the heading Deferred Investment Tax Credit.

**6. AMORTIZATION OF FACILITIES TO BE RETIRED:**

In the interests of operating efficiency and reduced costs, the diesel pumping equipment located at three pump stations in Manitoba will be replaced with remotely controlled electrical pumping units. As a result of this modernization program certain fixed assets will become surplus to requirements and will be retired from service on completion of the electrification program in 1967.

Normal depreciation on the same basis as in prior years will continue to be provided on such assets during the period they remain in service and if no other action were taken they would have a net book value of approximately $3,172,000 at the time of retirement. In order that the assets will be fully written off when they are retired, the Company is providing amortization of $3,172,000 by additional charges to earnings during 1966 and 1967. Consequently $1,586,000 has been charged to earnings in 1966 and is shown on the Consolidated Statement of Earnings as Amortization of facilities to be retired.

**7. CAPITAL STOCK:**

During 1966 the Company sold $35,000,000 of 6% Sinking Fund Debentures. When the debentures are issued in definitive form on March 1, 1967, they will have share purchase warrants attached which will entitle the holders to purchase capital stock of the Company, on or before November 1, 1976, at $85 per share. A total of 175,000 unissued shares has been reserved to meet this commitment.

By-law number 23, approved at a special general meeting of shareholders July 15, 1964, authorized the Company to petition the Parliament of Canada to pass a Special Act to subdivide each share of capital stock of the par value of $5 into five shares of the par value of $1 so that the authorized capital shall be $200,000,000 divided into 200,000,000 shares. Bills were introduced in 1964 and 1965 to effect the share subdivision, but in each instance Parliament was prorogued or dissolved before either Bill was passed. A new Bill was introduced in January, 1966 and has been passed by the Senate but has not been passed by the House of Commons.

**8. RETIREMENT PLAN:**

Effective January 1, 1966 the Company revised the Retirement Plan for its Canadian employees for both past and future service, including integration with the Canada Pension Plan. The revisions give rise to an actuarial liability for past service benefits in the principal amount of $1,176,000 which, together with interest, will be charged to earnings over a period of not more than twenty years.

**9. REMUNERATION OF DIRECTORS:**

The total amount deducted on the Consolidated Statement of Earnings for remuneration paid to salaried and other directors was $68,310.

**10. PIPE LINE TRANSPORTATION SYSTEM:**

It is estimated that expenditures in 1967 to complete construction in progress and for further expansion will amount to approximately $75,600,000. These expenditures will be financed partially from proceeds of the $35,000,000 Sinking Fund Debentures issued in 1966.

INTERPROVINCIAL
PIPE LINE COMPANY

*and subsidiary companies*

# Ten Year Review

## FINANCIAL (*in thousands of dollars*)

Income
Expenses
Income taxes
Earnings
  Earnings per share

Dividends paid
  Dividends paid per share
  Percentage of earnings
Working capital (deficit)

Capital additions to pipe line transportation system
Investment in pipe line transportation system (cost)
Investment in pipe line transportation system (net)

Long term debt, less payments due within one year

Number of shares outstanding
Number of shareholders

## OPERATING

Receipts of Crude Oil Produced in: (*in barrels per day*)
  Alberta
  Saskatchewan
  Manitoba
  United States

Deliveries of Crude Oil to: (*in barrels per day*)
  Edmonton—for West Coast
  Prairie Provinces
  United States—West of Lake Michigan
    —East of Lake Michigan
  Ontario

Barrel Miles (*millions*)

| | 1966 | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 | 1959 | 1958 | 1957 |
|---|---|---|---|---|---|---|---|---|---|---|
| | $ 89,006 | 80,292 | 74,983 | 69,999 | 66,570 | 59,227 | 55,162 | 56,097 | 49,910 | 41,930 |
| | $ 40,599 | 34,798 | 32,998 | 31,013 | 27,914 | 25,729 | 24,347 | 24,059 | 23,970 | 22,370 |
| | $ 25,884 | 25,157 | 22,783 | 21,206 | 20,977 | 17,402 | 15,335 | 16,434 | 12,844 | 9,596 |
| | $ 22,523 | 20,337 | 19,202 | 17,780 | 17,679 | 16,096 | 15,480 | 15,604 | 13,096 | 9,964 |
| | $ 4.43 | 4.00 | 3.77 | 3.50 | 3.48 | 3.17 | 3.05 | 3.08 | 2.59 | 1.97 |
| | $ 18,314 | 17,551 | 16,787 | 15,755 | 15,491 | 14,705 | 14,184 | 11,389 | 9,103 | 7,075 |
| | $ 3.60 | 3.45 | 3.30 | 3.10 | 3.05 | 2.90 | 2.80 | 2.25 | 1.80 | 1.40 |
| | 81.3% | 86.3% | 87.4% | 88.6% | 87.6% | 91.4% | 91.6% | 73.0% | 69.5% | 71.0% |
| | $ 24,567 | (11,949) | (18,572) | (16,057) | 689 | 6,821 | 6,921 | 7,997 | 276 | 1,329 |
| | $ 4,513 | 11,172 | 7,661 | 23,453 | 12,350 | 3,057 | 5,440 | 2,667 | 11,200 | 22,853 |
| | $ 334,507 | 330,676 | 320,023 | 312,670 | 289,465 | 277,382 | 274,560 | 269,626 | 267,270 | 256,966 |
| | $ 216,854 | 224,765 | 224,125 | 226,676 | 212,805 | 209,461 | 215,324 | 218,665 | 224,700 | 222,573 |
| | $ 119,087 | 93,663 | 90,992 | 100,073 | 108,378 | 115,339 | 123,758 | 130,926 | 137,479 | 143,716 |
| | 5,087,282 | 5,087,282 | 5,087,282 | 5,082,982 | 5,080,482 | 5,072,493 | 5,068,343 | 5,063,313 | 5,057,813 | 5,056,533 |
| | 16,290 | 15,521 | 14,127 | 12,757 | 12,582 | 12,353 | 11,834 | 11,901 | 12,129 | 11,966 |
| | 340,263 | 313,923 | 271,366 | 271,610 | 251,214 | 241,717 | 204,434 | 206,607 | 178,323 | 180,993 |
| | 245,435 | 228,777 | 216,250 | 190,281 | 171,657 | 146,927 | 133,528 | 118,206 | 108,759 | 80,507 |
| | 14,812 | 14,110 | 12,608 | 10,887 | 11,190 | 12,611 | 13,142 | 13,752 | 15,866 | 16,501 |
| | 6,836 | 4,903 | 4,487 | 4,178 | 123 | — | — | — | — | — |
| | 607,346 | 561,713 | 504,711 | 476,956 | 434,184 | 401,255 | 351,104 | 338,565 | 302,948 | 278,001 |
| | 8,501 | 14,595 | 5,013 | 3,818 | 7,172 | 13,213 | 18,175 | 15,370 | 12,881 | 23,840 |
| | 98,316 | 91,523 | 85,300 | 84,358 | 82,457 | 75,162 | 75,365 | 74,235 | 67,972 | 68,630 |
| | 94,231 | 86,868 | 77,229 | 63,642 | 55,671 | 51,921 | 54,067 | 50,574 | 54,761 | 51,973 |
| | 83,751 | 56,833 | 50,869 | 50,861 | 51,288 | 39,320 | 8,824 | 5,186 | 3,669 | 4,642 |
| | 320,145 | 308,226 | 285,556 | 267,903 | 235,897 | 220,200 | 193,039 | 191,407 | 160,714 | 124,605 |
| | 604,944 | 558,045 | 503,967 | 470,582 | 432,485 | 399,816 | 349,470 | 336,772 | 299,997 | 273,690 |
| | 267,354 | 241,264 | 221,691 | 207,724 | 186,562 | 170,468 | 137,483 | 135,569 | 113,997 | 94,994 |

PRINTED IN CANADA

# INTERPROVINCIAL PIPE LINE COMPANY

AND SUBSIDIARY COMPANIES

## INTERIM UNAUDITED CONSOLIDATED STATEMENT OF EARNINGS

(Expressed in Canadian Currency in Thousands of Dollars)

| | FOR SIX MONTHS ENDED JUNE 30 | |
|---|---|---|
| | 1966 | 1965 |
| INCOME | | |
| Transportation revenue | $42,902 | $38,776 |
| Other income | 581 | 293 |
| | $43,483 | $39,069 |
| EXPENSES | | |
| Operating expenses | $ 8,787 | $ 7,262 |
| Taxes, other than income taxes | 2,218 | 2,184 |
| Provision for depreciation | 5,365 | 5,198 |
| Interest on long term debt | 2,003 | 2,020 |
| Loss on foreign exchange | 225 | 304 |
| Amortization of facilities to be retired | 800 | — |
| | $19,398 | $16,968 |
| Earnings before income taxes | $24,085 | $22,101 |
| Provision for income taxes | 12,580 | 11,786 |
| Net earnings for the six-month period | $11,505 | $10,315 |
| Net earnings per share (5,087,282 shares) | $2.26 | $2.03 |

PRINTED IN CANADA

INTERPROVINCIAL PIPE LINE COMPANY

# INTERIM REPORT

FOR SIX MONTHS ENDED JUNE 30, 1966

# INTERPROVINCIAL PIPE LINE COMPANY ■ INTERIM REPORT FOR SIX MONTHS ENDED JUNE 30, 1966

## *To the Shareholders*

Significant operating and financial statistics for the first six months of 1966 compared with the same period in 1965, as shown elsewhere in greater detail in the Unaudited Consolidated Statement of Earnings, are tabulated below.

| | First Six Months 1966 | 1965 | Percentage Increase |
|---|---|---|---|
| **OPERATING** | | | |
| Deliveries of crude oil (barrels per day) | 591,412 | 541,914 | 9.1 |
| Barrel miles (millions) | 131,334 | 118,053 | 11.3 |
| **FINANCIAL** | | | |
| Income ($000) | $43,483 | $39,069 | 11.3 |
| Expenses ($000) | 19,398 | 16,968 | 14.3 |
| Income taxes ($000) | 12,580 | 11,786 | 6.7 |
| Net earnings ($000) | 11,505 | 10,315 | 11.5 |
| Per share | $2.26 | $2.03 | |
| Dividends paid ($000) | 8,648 | 8,648 | |
| Per share | $1.70 | $1.70 | |

The increase of 9.1% in crude oil deliveries and 11.3% in barrel miles is the result of greater crude demand in two or three of the areas served by Interprovincial. The increased net earnings of 23¢ per share also reflecting the higher volume of crude oil transported, while extremely gratifying, is not necessarily an indication that the last half of 1966 will show the same degree of buoyancy. We would expect, however, that 1966 will result in earnings higher than in 1965.

Expenses for the first six months of 1966 show an increase of about $2.4 million, of which $800,000 shown as "Amortization of facilities to be retired" is the result of a modernization program which your company has in its immediate future. This plan will result in a write-off of about $3.2 million over a two-year period for some undepreciated pumping and auxiliary equipment. Diesel pumping stations in Manitoba are to be converted to electric remotely controlled units which will result in lower operating costs and should show a payout in a relatively short period.

Fuel and power costs are higher in the first half of 1966 due to increased horsepower required to transport the additional volume of crude oil.

## CONSTRUCTION

1966 construction will entail expenditures of approximately $6.3 million which is an increase of about $4 million over the amount indicated earlier this year. It has been necessary to revise our original plans to increase capacity due to higher crude demand in 1967 and the modernization program mentioned earlier in this report.

## DIVIDENDS

On July 20, 1966 your Board of Directors declared a regular quarterly dividend of 90¢ per share payable September 1 to shareholders of record August 5, 1966. This is an increase of 5¢ per share over the quarterly rate paid on March 1 and June 1, 1966.

## SUBDIVISION OF CAPITAL STOCK

This subject was dealt with in a recent letter to shareholders. The replies received in this respect far exceeded our expectation. Your Management is grateful for the support given by these many letters from the holders of our capital stock. A further letter commenting on the various suggestions which were made, is enclosed.

T. S. Johnstone
President

Edmonton, Alberta
August 3, 1966.

*Interprovincial Pipe Line Company*

T. S. JOHNSTON,
*President*

*Room 901, 7 King St. East*
*Toronto 1, Ontario*

August 3, 1966

To Shareholders of
Interprovincial Pipe Line Company

The response to my recent letter to shareholders dealing with our proposed subdivision of capital stock has been greater than anticipated. It is most gratifying to realize the shareholders have taken such a keen interest in the company's activities.

Many thoughts have been expressed as to how our stock split might be effected and all of them have received serious consideration. Unfortunately it is impossible to reply to each letter individually and we are, therefore, setting forth our answer to the one predominant question suggested by the shareholders. This question is why we cannot effectively accomplish a 5 for 1 split by using authorized but unissued shares and distributing four of such shares to each shareholder for the one share he now holds.

It must be realized that before an authorized share can be issued by any company, the par value of that share must be paid into the company treasury to the capital stock account so that the share will be issued as a fully paid up share. In our case with some 5 million shares presently issued, four new shares for each share outstanding would result in an additional 20 million shares of a par value of $5.00 each being issued; thus $100 million would have to be paid or transferred into the treasury. There is only one source for this money and that is from the company's retained earnings. This amount is beyond the resources of the company.

Another feature of this approach is that such a procedure is in effect a stock dividend and unfortunately companies such as Interprovincial incorporated by a Special Act of Parliament do not have the necessary authority to issue a stock dividend. Before this could be done it would be necessary to have our Act of Incorporation amended which obviously would meet with just as much opposition by the particular members of Parliament concerned as the stock splitting has encountered.

Again thank you for your interest and you may be assured that we are not letting this matter become dormant.

T S Johnston

T. S. JOHNSTON